Executive Summary

In 1978, China's leadership reached the conclusion that more extensive use of productive factors was not the best means of achieving rapid, and sustainable, economic growth and development. Sustained rapid growth and development would require that the economy be restructured so as to enhance the productivity and the efficient use of resources. To achieve this objective, it was decided to adopt market-oriented reforms. No blueprint for the structure of the economic system on which the reform process would converge was established. Since then, economic reform has involved the relaxation of direct planning controls, the decentralization of economic decision making, increased reliance on markets to set prices and output, the development of nonstate-owned economic entities and an opening of China's economy to the outside world.

The initial conditions under which China entered its economic reform era were very different from those of other reforming socialist economies. China was not impelled to enter upon its reform path because of an imminent macroeconomic crisis. This removed the need for a strong dose of deflationary policy or "shock therapy" to accompany the launching of reforms. China's leadership also faced a set of conditions whereby the economy was well-situated to respond rapidly to improved incentives by increasing output, including in the critical agriculture sector. China also benefitted from the presence of rapidly developing Hong Kong.

China's approach to economic reform is often described as "gradualist". This can only refer to the timeframe for reforms, however, since the transformation of the Chinese economy over the past 15 years has been quite substantial. China's reformers appear to push reforms when the economic, political and social conditions allow or require action. Yet the cumulative impact has been significant and, in many ways, quite radical.

The most important outcome of the economic reform program may be that China has become a much more significant player in the world economy. It should be noted that, even in 1978, trade played a relatively important role in China. By that time, a program to import western technology was already underway. Since 1978, however, trade (exports and imports combined) consistently has grown at rates well above those for GDP. By 1990, trade had risen to over 30 per cent of GDP, making China, by this measure, the most open of all large developing countries, and with a degree of openness more than twice that of India or Brazil. Trade has also helped to raise the level of technology utilized in the country and to expand the flows of foreign direct investment into the country. More generally, output grew at an annual average